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# **Bringing balance to the force**

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## **Abstract**

Events from 2008 onwards have brought the old consensus on the sound money and finance paradigm (the ‘Great Moderation’) into bold relief. One manifestation of this crisis of belief is the increased focus on global imbalances, institutionally reflected in the creation of the Mutual Assessment Process (MAP) at the G20 level and subsequently the Macroeconomic Imbalances Procedure (MIP) at the European Union (EU) level. Comparing both newcomers to international macroeconomic policy coordination, this article analyses four features that shape (and we show, institutionalise) the process of paradigm contestation: presence, position, promotion and plausibility. We argue that although initially the G20’s MAP scored higher in terms of presence, position and promotion, it is the EU’s MIP, which heralds a more substantial shift in macroeconomic management. Collectively, both indicate the increased prominence of global imbalances as the subject of inter- or supra-national management, and a broadening of the notion of necessary or legitimate economic governance.

## **Keywords**

Macroeconomic policy; Global Imbalances; the IMF; the EU; G20; Stability and Growth Pact



## **Introduction**

The financial crisis provoked chaos within macroeconomic policy making. Prior to 2008, a broad consensus on the merits of prioritising low inflation and low deficits was secured by the apparent stability of the pre-crisis decades in the developed world. The crisis threw the fallacies of this paradigm into stark relief, illuminating systemic risk in corners of the economy that lay beyond the conventional boundaries of macroeconomic policy regulation and coordination. Faced with the limitations of existing governance strategies in predicting, let alone preventing, the economic fallout, policy-makers across the globe sought more nuanced and integrated guidelines on macroeconomic management (see IMF, 2010). One of the strongest common denominators amongst the crisis narratives was the identification of global imbalances as a key source of financial and economic instability (e.g. Frieden, 2009; Larch, 2011; Willett and Chiu, 2012; Bird, 2013). The creation of the two supranational imbalance regimes we consider here, the Mutual Assessment Process (MAP) and Macroeconomic Imbalance Procedure (MIP), are a direct result of this trend. The MIP offers a surveillance mechanism to prevent and correct harmful macroeconomic imbalances between countries at the EU level. The MAP establishes a process to evaluate and rectify macroeconomic imbalances within the G20.

In this article, we compare these two most recent initiatives in macroeconomic policy coordination taken at the supranational level. In so doing we present an analysis of institutional creation promoted by a paradigm shift within international macroeconomic policy coordination, concerning the (re)discovery of imbalances. Our fundamental research

question concerns how these two new policies, created in the wake of crisis to institutionalise supranational cooperation, differ in their degrees of embeddedness and political support, and why this is so. We also consider where each policy originates from, and trace the lineage of the respective ideas that influence their functioning. The structure of the article outlines how these ‘consolidated’ policies came about, by detailing first their respective policy instruments, and then the comparative circumstances of their emergence and institutionalisation. We proceed to argue that the emergence of MAP and MIP has the potential to indicate a genuinely new paradigm for macroeconomic policy coordination, but that as the two sets of policies show, the consolidation of this paradigm is fundamentally dependent on the four features that shape (and we show, institutionalize) the process in their respective settings.

Our analysis spans the collapse of Lehman Brothers, the American investment bank whose bankruptcy triggered the financial crisis in 2007, to early 2015. This allows us to consider the three acts of crises collectively: crisis, experimentation and consolidation (Culpepper 2008). In the crisis stage, the previous (‘Great Moderation’) paradigm came under severe attack. In the experimentation stage, a series of debates occurred amongst both national politicians and supranational staff, with the existing presence of ‘imbalance rationales’ within the International Monetary Fund (IMF) and EU’s regulation proving crucial to the political plausibility of fresh regulation. The final act begins with the adoption of a new set of policies and institutions, which is to say the application of the newly created imbalances procedures at the EU and G20 level, and with their subsequent differential embedding.

## Theory and approach

In order to explain the differing trajectories of the two efforts at supranational macroeconomic coordination, we make use of a framework (the ‘four Ps’) developed by Baker (2012). Baker specifies four ‘scoping or enabling conditions that shaped the emergence of MPR [macroprudential regulation] as the principal post-crisis regulatory interpretative frame’ (2012, p.114), namely presence, professional positioning, promotion and persuasion, and plausibility. Both MAP and MIP share with MPR the fundamental rationale of ‘protecting the whole’ (Luis and Nier, 2012), but unlike MPR are not principally concerned with monitoring financial risk, but rather more holistic imbalances within and between national economies. Furthermore, while Baker focuses on the conditions which led to MPR becoming accepted as a desirable response to the financial crisis (ideational selection), we, conversely, focus on processes of *institutional selection* that mediate the policy frames which emerge from them. In so doing, we show that Baker’s framework has considerable purchase beyond the context in which it has so far been used.

Wedded to the analytical framework, our research draws on empirical material gathered through 26 semi-structured interviews conducted between 2011 and 2017 with officials working on either or both imbalances procedures. Institutionally our interviews span the European Council, the European Commission, the European Parliament, Member States’ Permanent Representations and the IMF. Face-to-face interviews took place in Brussels and Washington DC, whilst two interviews were conducted over the phone. Interviewees were selected on the basis of position and involvement with the policy issues here

examined. The information gathered during the interviews was explicitly ‘not for attribution’, that is to say the information could be used and quoted provided that the individual would be granted anonymity.

We focus on MAP and MIP because they are distinctive, amongst measures targeting supranational macroeconomic imbalances, for emerging fully as a consequence of the crisis. We focus our analysis not on the comparative effectiveness of each policy – that is, the problem solving capacity – but on the interaction of different scoping conditions for both procedures (in other words, how well each policy has become embedded in its context) in order to determine how and why they have become salient. Our choice of both institutions and evaluative criteria contrasts with Moschella (2014) who compares the IMF’s own macroeconomic surveillance, which predates the crisis, with the EU’s MIP. We suggest that MAP is the more insightful comparator to MIP, as although the Fund’s experience in macroeconomic surveillance was a significant forerunner for the MIP, it had a more direct bearing on the policies of the MAP. MIP, conversely, was grafted onto a set of contextually specific ideas that existed within the EU macroeconomic framework, such as the Broad Economic Policy Guidelines (BEPGs) and European Employment Strategy (EES). Consequently, we present a rather different account of the relationship between the MIP and its intellectual predecessors, as our evidence does not suggest a failure of policy learning but rather different political contexts providing more or less fertile ‘seeding grounds’ for addressing the issue of imbalances.

## **Comparing MAP and MIP**

Both MAP and MIP are notable for involving efforts to address future global macroeconomic problems by correcting asymmetries between states. One of the first of these responses was orchestrated at the G20 level, which (re)organised in autumn 2008 with an inaugural summit in Washington D.C., to act as a forum for heads of governments to deal with the ramifications of the financial and economic crisis. As part of an attempt to coordinate policy responses, leaders agreed on the creation of the Mutual Assessment Process (MAP). MAP constitutes the backbone of the initiative launched at the 2009 Pittsburgh summit (the ‘Framework for Strong Sustainable, and Balanced Growth’). Subsequently, a response was also organised at the EU level. The Union’s response to the burgeoning debt crisis included a series of new regulations to enhance economic governance. The MIP, which came into force in 2011 as part of the so-called Six-Pack, established a surveillance procedure to prevent and correct macroeconomic imbalances. Both of these measures are outlined below.

The MAP describes an in-depth country review, carried out by the IMF and agreed by G20 leaders, to assess the existence of destabilizing imbalances between countries. G20 leaders gauge progress toward the Framework goals via indicative, non-numerical guidelines to identify and assess imbalances. The guidelines feature a total of 40 indicators, called G20 MAP Inputs, spanning 6 groups (domestic variables; monetary and financial policy; fiscal policy; labour markets; external development; external variables: see Table 1 below). This extensive list intersects with all the original EU’s MIP indicators bar labour costs —



although the IMF has recommended a rise in wages as part of a strategy to boost internal demand in surplus countries as part of the Mutual Assessment Process. The resulting MAP recommendations are legally non-binding and rest solely on the commitment of national governments. The variables and indicators used in both processes are in line with those found in with similar, prior instruments in the macroeconomic governance toolbox, such as the Early Warning Exercise conducted by the IMF (Kaya, 2010).

The new regulations created as part of the MIP established a scoreboard to provide an early-warning signalling device for potentially harmful macroeconomic imbalances in Member States. Analogous to the Stability and Growth Pact, the annual macroeconomic imbalances procedure has a preventive arm, where policy recommendations can be issued by the Council to tackle imbalances early on, and a corrective arm where ‘excessive’ imbalances have been identified and an action plan is requested from the Member State concerned. Non-compliance with the Council recommendations can eventually, at least on paper, lead to financial sanctions. In the ‘Scoreboard for the Surveillance of Macroeconomic Imbalances’ (DG Ecfm, 2012), the Commission stresses that the indicators are neither policy targets nor policy instruments. Instead the results of the scoreboard are interpreted from an ‘economic perspective’, with thresholds for the indicators merely being a starting point to serve as alert levels. The scoreboard contains 11 headline indicators (supplemented by 18 auxiliary variables), as shown in Table 1.

## **P1: Presence**

For Baker, the first condition for a new policy frame to gain hold ‘is prior institutional and intellectual presence’, which provides ‘an advantage in terms of institutional access and a body of prior work’ upon which to hook reforms (Baker, 2012: 121). We use presence to describe the way in which the imbalances procedures in the EU and G20 both to some extent drew potency from initiatives already circulating within their respective institutions (particularly the EU’s BEPGs) and beyond. In examining the first scoping condition, it is useful to turn to the IMF, an institution in which imbalance monitoring has had a far longer gestation period. The IMF’s primary activity since 1945 has been to provide funds to countries with debt or balance of payments difficulties as a result of temporary trade imbalances, in order to obviate the need for countries to adopt trade-distorting measures in response (Agarwal, 2012). Under Article 2, domestic imbalances form a core part of this mandate, with the articles of agreement amended in 1979 to call for ‘firm surveillance’ of members’ domestic policies (Moschella, 2014: 5). Already prior to the global financial crisis, the IMF launched the so-called Multilateral Consultations on Global Imbalances— in mid-2006—involving China, the eurozone, Japan, Saudi Arabia, and the United States, a largely unsuccessful effort to foster cooperation amongst participating countries to address growing asymmetries while maintaining global growth (IMF, 2006). International concern over systemic risk is not new, especially as it pertains to imbalances between states. ‘External review’ was a feature of the G20 since its inception at the Finance Minister level in 2000, when all countries agreed to ask the IMF and World Bank to examine whether their national financial rules complied with international standards and how they might be improved (Kirton 2005: 8). What changed considerably with the MAP, is the extended purview of this review beyond financial regulation.

The idea of systemic risk management was therefore present in the background before the crisis; but this does not necessarily account for how oversight came to be located in the alternate settings of the G20 and EU. In both cases, officials acted as ‘norm entrepreneurs’ (Finnemore and Sikkink, 1998). The epistemic community of the IMF is very close to the economic governance institutions of the EU and the G20. In the case of the MAP, the IMF’s strong institutional presence stands in contrast to the G20, which is not equipped with a bureaucratic machinery of its own: the secretariats (and indeed web-presence) change annually with every presidency, and working groups are non-permanent. Thus, the MAP relies on the IMF’s assistance in conducting surveillance. The IMF was no stranger to apex policy forums. Its expertise was increasingly sought as cooperation efforts between industrial countries grew from the 1980s onwards. Still, the G20 by formally recognizing the input role of the IMF, departed from the old G7 model where ‘the Fund participated only at the pleasure of the countries’ officials and had no real standing to guide the process’ (Boughton, 2001: 186). The G20 however continues the ‘fire-side-chat cum expert network model’ of the G8 (cf. Penttilä 2003: 150).

Nonetheless, the fact that the G20 chose to create the additional architecture of MAP over and above what the IMF was already doing, indicates different motives for deploying imbalance regulation. This may be deemed to be partially the result of the perceived ‘failures of IMF surveillance’, which have ‘attracted attention both within and outside the Fund’ (Moschella, 2014: 6). Indeed, while working with the IMF lends the aura of expertise to the G20’s MAP (author interview 12.4.2011), the fact that the initiative was spearheaded directly by governments offers the likelihood of more credible outcomes and stronger ‘political ownership’ (G20, 2012). The trend here is towards *state-centered* cooperation

(Reisenbichler 2015). The IMF, for example is similarly lending as well as duplicating expertise to the reformed and rebranded Financial Stability Board (FSB), a key forum for international financial regulation, whilst the ownership rests clearly with the participating finance ministers. The same holds for the FSB's predecessor, the Financial Stability Forum, which was established against the backdrop of the French proposal to create a strengthened committee *within* the IMF (*ibid.* 1012).

Similar discussions on the risk of imbalances have occurred within Europe, where the European Payments Union – a precursor to the EEC – was founded as early as 1948 to subsidise Marshall Plan countries running a trade deficit (Gross, 2011). Maes locates concern over systemic imbalances on the EEC's political agenda from at least the early 1960s, viewed 'very much from a balance of payments perspective, as balance of payments problems could threaten the common market project' (Maes, 2004: 10). The most direct institutional precursor for the MIP can be found in the form of the Broad Economic Policy Guidelines (BEPGs), which were introduced in 1993 in the Maastricht Treaty (now Article 121 TFEU). In their original statement, the BEPGs were focused around the desire to promote employment, growth and convergence in the Community (Commission, 1993), but in 1998 this mandate was extended to include country-specific guidelines for the first time. With the Lisbon Agenda of the year 2000, the remit further covered 'the medium and long term implications of structural policies and on reforms aimed at promoting economic growth potential, employment and social cohesion' (European Council, 2000: para 35).

This period also brought about the implementation of the European Employment Strategy

in 1998<sup>1</sup>, which sought to foster convergence around a set of goals for job creation. However, designed as it was in tandem with the Stability and Growth Pact, it set fiscal constraints above all else and therefore made it difficult for member states to engage in stimulatory labour market policies (such as allowing for early retirement) if necessary. Thus, although it sought to promote convergence, the vision of harmonisation it promoted did not allow for symmetrical adjustment, with both expansion and contraction. Whilst it may have served to prime the European arena for the MIP, it was equally emblematic of a way of thinking, historically prevalent in the Commission.

The BEPGs, whilst superficially similar to the MIP, also had a blind spot with respect to imbalances. According to the European Commission ‘macroeconomic imbalances have been continuously monitored within the context of the EU's BEPG’ (COM, 2012). Yet, on reviewing the annual Council Recommendations on the BEPGs from 1996-2008, macroeconomic imbalances were addressed only once. Instead, the prescriptions under the BEPGs are a long-standing example of the EU taking the initiative on monitoring the domestic policies of member states (as, likewise is the European Employment Strategy). The BEPGs are highly embedded within the EU's transnational architecture, as the guidelines to member states are ‘adopted by the Council of Ministers for Economic and Financial Affairs (ECOFIN) and monitored through a system of multilateral surveillance involving the Commission and ECOFIN’ (Deroose et al., 2008: 828). This capacity building was to help grease the wheels for the MIP, as EU Member States were, in contrast to their G20 counterparts, well-used to scrutiny of and deliberation on domestic policies at

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<sup>1</sup>The EES is now also conducted as part of the European Semester process.

the EU level (author interview 25.5.2011).

Whereas some parts of the Six-Pack, notably the European Semester, had been on the Commission's wish list pre-crisis, the MIP appears to represent a genuine rethink in economic governance for the EU. As one Commission official put it 'we did not have a ready-made thinking on this' (author interview 17.3.2015). This attitude partly derives from the conviction that monetary integration would itself be a cure for imbalances: 'the single currency was expected to make balance of payments irrelevant between the euro-area member states' (Merler and Pisani-Ferry, 2012: 1). Relying on market discipline as a cure for imbalances, the architecture of EMU was heavily influenced by the prevalent thinking of the 90s that 'market forces would correct asymmetry' (author interview 18.3.2015, c.f. De Grauwe, 2000). There is evidence that this view was held outside of EU policy circles as well, notably within financial bond market participants (cf. Arghyrou and Kontonikas, 2012). When faced, however, with the paradigmatic challenge of the crisis, policy makers within the Commission drew on any available examples of solutions, including the MAP. Contrary therefore to Moschella's account (2014), officials working on the design of the MIP in the Commission's DG Ecfm did profess to take into account the existing literature, as well as previous initiatives from the IMF, the G20 and the European Stability Risk Board (author interviews, 14.3.2011, 25.5.2011, 17.3.2015, 22.2.2017). This is further evidenced by the overlap in indicators used to assess imbalances (see above).

## **P2: Professional Positioning**

The second scoping condition refers to ‘an improvement in professional positioning and appeal’ (Baker, 2012: 124). In other words, new ideas can come to the fore in part because proponents became better placed within professional policy networks; we use this concept to address the role of political and institutional actors who used the crisis to foster imbalances initiatives and challenge existing asymmetries. We particularly focus on the status and recast priorities of the IMF, noting how the IMF’s agenda shift was mobilised by key political actors within the G20 and EU. Within both contexts we can see evidence of a shift leading to altered opportunities (and incentives) for policy advocates. The global financial crisis challenged the accepted wisdom of the Great Moderation and in so doing brought the issue of systemic global imbalances to the forefront of debate. Over the past half-century, adjustment in global imbalances was thought to occur ‘naturally’ through market action — a belief that was sponsored as much by the material interests of powerful proponents as by economic ideas (Drezner and McNamara, 2013: 158) and thus benefited from both distributive and ideational appeal. In the wake of the crisis, and following much soul-searching amongst both economists (e.g. Obstfeld and Rogoff, 2009; Claessens et al., 2010; Griffith-Jones, 2010) and policy-makers (e.g. Almunia et al., 2010; Buti and Carnot, 2013) this belief became replaced by a consensus that global imbalances accumulated over the years were a central element in precipitating the crisis.

The IMF again took a central position in building a new understanding of imbalances and

provided a body of research underpinning the debate, including 23 Working Papers from 2008-2014 on the issue. In so doing it was able to draw on its experience of surveillance stemming from the original Bretton Woods system mandate, which enlisted the fund to ensure that members ‘shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members’. The IMF is uniquely placed to provide information given its long-standing experience and its access to a near-universal membership of 188 governments, all of which are mandated as a requirement of membership to consult regularly with the Fund (Lombardi and Woods, 2008). The IMF’s ‘expert status’ in analysing systemic risk was further heightened by the wide discrediting of private sector analysts and forecasters (Cooper, 2010: 276). Some observers have argued that the global financial crisis has led to a resurrection of the IMF, which a mere year before was struggling ‘to re-establish its legitimacy in the face of an unusual consensus between development critics, economists and central bankers that the IMF had virtually gone out of business’ (Gabor, 2010: 805).

The resurrection of the IMF at the round-table of global crisis management and prevention was furthermore accompanied by a change in policy tone that favoured greater emphasis upon imbalances. This change was most pronounced with respect to the use of discretionary fiscal spending to fight the economic downturn, and subsequently a cautious and gradual attitude to fiscal consolidation after the immediate phase of the crisis which has placed it in conflict with some of its member governments (Broome, 2010; Clegg, 2012; Lütz and Kranke, 2014; Ban, 2014). This was prompted not only by the events of 2008 but also changes at the top of the IMF’s bureaucratic pyramid, namely the new



managing director (Dominique Strauss-Kahn), chief economist (Olivier Blanchard) and director of the Research Department (Carlo Cottarelli) (see Ban, 2014). Blanchard et al. (2013) typify this shifting attitude by concluding from the crisis that ‘countercyclical fiscal policy is an important tool’ in conditions of low inflation where there is little room for monetary manoeuvre. The shift in fiscal policy recommendations changed the terrain for actors to politicise global imbalances and the underlying issue of an (a)symmetric burden of adjustment.

The reinvigoration of the IMF certainly suggests a strong professional positioning on the ‘technocratic side’ of the MAP. Nonetheless, as their willingness to criticize governments over fiscal policy suggests, the political picture is more complicated (author interview 13.4.2011). The G20 was dependent on existing institutions and associated sources of technical expertise to devise and implement the MAP (Eccleston et al., 2015: 7). This is in line with Baker and Carey’s claim (2014) that the delegation and associated endorsement of the G20 conferred legitimacy on IMF surveillance, as an issue that matched the Fund’s existing agenda. Nonetheless, the G20 was significant as a political vehicle for raising the status of imbalance initiatives, as it relied upon a smaller number of public figureheads, and in so doing moved beyond the IMF’s existing surveillance in terms not only of technical instruments, but also political competence. This is reflected in the division of labour as laid out by the former managing director Strauss-Kahn (*Financial Times* 18.9.2009): ‘we need the G20 to put some steam behind this [MAP]. The G20 can provide the political leadership while the IMF can provide expertise and capacity’.

At the G20 level, two figures stand out in the creation of the assessment process. First, the then French President Nicolas Sarkozy took an important role in launching the G20 as a credible organization at the leaders' level (author interviews 19.3.2011, 25.5.2011). During the initial crisis years he enjoyed high esteem among his peers, having helped to orchestrate both EU-level and international crisis summits to address the ramifications of the global fallout. Second, the incoming US President Barack Obama was welcomed by other G20 leaders as the administration of the previous president 'became increasingly willing to resort to unilateralism and disengaged from multilateral organizations when its interests were compromised' (Kissack, 2010: 7). For the US government the MAP was a well-received innovation as it distracted from the role the US had played in the global financial crisis and offered a blame-sharing approach to crisis diagnosis and eventual remedy (author interview 25.5.2011). It also provided a potential opportunity to decry Chinese policy (on what was perceived to be currency manipulation) having found IMF surveillance toothless. The establishment of the MAP during the Pittsburgh summit is a sign of both US leadership in this matter and of US interest.

Sarkozy also played an important role at the EU level, where he and the German Chancellor Angela Merkel co-authored a letter to the President of the European Council expressing (*inter alia*) their support for the MIP, and clamouring for the EU's economic governance to be extended even further. In addition to a strong endorsement by the French government, the MIP met with broad consensus in the European Council where it gathered momentum at the political level (author interview 17.3.2011). In some respects, French support for the MIP is unsurprising, as MIP can be taken as an proxy for a policy goal – '*gouvernement*

*économique*’ – that successive governments have fought for over many years (Howarth, 2007), and which German veto power has so far denied. Whilst MIP is not a mirror for France’s traditionally activist approach to macroeconomic policy which ‘in the context of EMU encourages French governments to seek to match the single monetary policy with some form of supranational economic governance’ (ibid.: 1062), it does nonetheless contain significant elements which pleased the French. Notably, it represents a much broader and multi-faceted approach to the ‘E’ in EMU than the SGP’s budget fetishism. In early debates over EMU, the French position aligned with Delors who sought to achieve ‘balanced’ economic convergence around standards agreed by all member states (which is to say, not necessarily German standards), and states with trade *surpluses*, notably Germany, refrating to help those under pressure (Featherstone and Dyson, 1999: 142).

Although accusations of predatory German export policies are therefore not a new feature, the debate about beggar-thy-neighbour policies intensified with the Great Recession and neutralised the taboo of criticising surplus countries. In the first act, Berlin was repeatedly accused of free-riding on other Member States’ stimulus policies, waiting ‘for other less well-placed countries to do most of the work and reaping the benefits once exports pick up’ (*Financial Times* 26.11.2008). In the second act, when the debate turned to fiscal consolidation, Germany faced criticism for its export-driven recovery strategy. In 2010, French criticism of the strong German trade surplus (again) made headlines. Jean-Paul Fitoussi, then adviser to Sarkozy, argued for example that ‘the German economic strategy built on growth of exports is uncooperative’ (*Financial Times* 16.2.2010). Along similar lines Christine Lagarde, then Finance Minister and later managing director of the IMF,

called on Germany to curb its export surplus (*Financial Times* 15.3.2010). Interestingly, although she said that she spoke to German Finance Minister Wolfgang Schäuble almost daily, she argued that ‘the issue of imbalances is not one we address readily’ (ibid.). Two years later the MIP provided a venue and framework to do just that.

### **P3: Promotion and persuasion**

The third condition originates in crisis politics, where ‘the willingness of [...] norm entrepreneurs to engage in the very action of promotion and persuasion...is particularly crucial’ (Baker, 2012: 124). We primarily use this to examine how exchange rate imbalances served to coalesce opinion and enable persuasion within the respective policy communities of MAP and MIP. Here, MIP policy makers drew directly on MAP as both a pilot experiment and a token for striking political bargains. For MAP, the promotion and persuasion at the technical (IMF) and the political (G20 leadership) levels are markedly distinct. The key difference lies in the understanding of what ‘systemic imbalances’ refer to and what the MAP should achieve. For the IMF, it represents a comprehensive assessment of a host of indicators that can indicate imbalances posing a risk to global recovery and the recurrence of crises. The Fund’s argument in favour of collective action advocates two types of rebalancing (IMF, 2013): internal rebalancing, that is short-term consolidation; and external rebalancing via external demand in deficit economies, matched by a stronger reliance on internal demand in surplus economies. This dual rebalancing logic sits well within the existing IMF framework and puts the Fund in a position to advocate

both fiscal consolidation and public investment depending on the imbalances profile. Thus the IMF's position under the MAP does not amount to a paradigm shift in macroeconomic management like the one it experienced during the 1980s (see Ban 2014). The indicators used for the MAP assessment by and large match those already used in the Article IV Country Consultation. Yet, although the Article IV surveillance was based on groups of like-units (see Broome and Seabrooke, 2007), the MAP has a potentially larger naming and shaming function. Now a country group (7-9 countries) can be explicitly singled out for experiencing worrisome external, fiscal or private imbalances, with country groups suggesting good or bad company.

Whereas the IMF embraced a broad reading of global imbalances, the political debates amongst the G20 leaders suggest a much narrower reading, notably one that focuses on the issue of exchange rates. This focus harks back to the Bretton Woods system, when the centre of multilateral policy constraint fell on member countries' exchange rate policies, not on broader issues of macroeconomic management. The issue of beggar-thy-neighbour exchange rate policies survived this period, and exchange rate surveillance has since then been part of the Article IV process. The promotion of the MAP by US policy-makers focused on the exchange rate component of imbalances. Even prior to the financial crisis, US policy-makers searched for a political channel to decry Chinese exchange rate policies. The backbone of these efforts consists of the so-called 'savings-glut' hypothesis, according to which undervaluation of the Chinese renminbi led to the accumulation of large foreign exchange reserves mainly in the form of US government debt, keeping long term interest rates excessively low (Bernanke 2005). From loud demands for Chinese currency appreciation from the US administration (e.g. Geithner, 2010) to renewed debates about a

Plaza Accord II that would facilitate the appreciation of currencies in major surplus economies like China and Germany (Wang 2012), the debate on addressing global imbalances quickly turned into talks about another round of currency wars (Ahmed 2012; Huang 2010).

Although the discourse of the current US administration on ‘bad, really bad’ Germans does not suggest as much, originally Germany was not the initial target of the US’s imbalances strategy. ‘Originally the issue of imbalances was a way for the US to bash China within the G20, yet for political reasons the Obama administration did not want to single out China and therefore Germany got in the line of fire as well’ (author interview, 12.4.2011). US’s accusations of Chinese exchange-rate manipulation were met with counter-attacks by Chinese policy-makers. The US, so the argument goes, was itself to blame because a loose monetary policy and the large capital inflows it provoked, led to upward pressures on the US-Dollar (Gnath and Schmucker, 2012). Germany and China furthermore pointed to recent developments in US monetary policy, namely quantitative easing. The German finance minister Wolfgang Schäuble (2010) commented that ‘it’s inconsistent for the Americans to accuse the Chinese of manipulating exchange rates and then to artificially depress the dollar exchange rate by printing money’. In the wake of the Federal Reserve’s announcement of a \$600 billion bond-buying scheme in November 2010, many emerging markets and EU countries accused the US of worsening global imbalances. Quantitative easing, so their fear, would entice investors to borrow cheaply in US Dollars to buy emerging market assets in the hunt for higher returns (*Financial Times* 1.11.2010). Turning the tables, Ma Delun, a deputy governor of the People's Bank of China, voiced concerns that the Fed's program ‘may add risks to the global economic imbalance, put pressure on

emerging markets to adjust their international balance of payments and could also stir the formation of asset bubbles, all of which require our vigilance’ (Reuters 9.11.2010). Germany was by no means China’s only ally in fending off US attacks. The other BRICS countries have continually stood in solidarity with China. For instance, when Geithner attempted to enlist Brazil, he was rebuffed by the then Finance Minister, Guido Mantega, who insisted the United States was the source of imbalances (Chodor, 2017). Korea, itself no stranger to currency intervention, also came out to defend the Chinese government. Shortly before hosting the G20 Seoul Summit, its Finance Minister, Yoon Jeung-hyun made clear that ‘we may discuss for example the general approach toward foreign exchange rates [...] or the impact foreign exchange could have on the global economy. [...] I do not believe that it is appropriate to have a discussion regarding the foreign exchange rate or level of a specific country’ (*Reuters News*, 23.9.2010).

The support (rather than the subsequent hijacking) of the MAP by the US delegation represents a historical turn as ‘this is the first time the U.S. has agreed, even proposed, to submit itself to a structured, full peer-review process’ (Lombardi, 2010) — a shift that is in contrast to the difficulties during the 1970s in securing US agreement for the IMF surveillance framework. Nonetheless, commitment was not to survive long. Not only was the broader issue of internal and external rebalancing reduced to exchange rate policy, but also the promotion of the MAP faced competition in the calculus of action of policy-makers, with issues as diverse as anti-corruption, climate change and Ebola crowding the G20 agenda. Expanding agendas also beset the G7 and the G20 Finance meetings: ‘Terrorism on aircraft provided the spur for this “politicization” of the G20 in its third year, just as it had for the G7 Summit in its fourth year with the issue of “skyjacking” at Bonn

in 1978' (Kirton, 2005: 12). At the 2009 Pittsburgh Leaders Statement the issue of imbalances ('A Framework for Strong, Sustainable, and Balanced Growth') had been raised before discussing international financial regulation (Strengthening the international Financial Regulatory System'). Five years later the Leaders' Communiqué from the Brisbane summit includes a mention of neither imbalances nor the MAP.

In persuading member states to rebalance their economies, the assessment process faced the same enforcement problems that had plagued the IMF's previous Multilateral Consultations on Global Imbalances-; as its policy recommendations were not legally binding it relied solely on countries' willingness to participate with some commentators claiming that the G20 forum is a 'toothless talkshop' (Rachman, 2010; Wolverson, 2010), or a 'defence club for national interests' (author interview 17.3.2011). What is more, lacking clear policy-targets, non-compliance became more difficult to call out. The US had pushed hard during the Seoul summit for numerical targets to identify imbalances, notably a 4 per cent target for current account surpluses (which was blocked by Germany and China). A year later, the French delegation sought to secure an agreement on economic indicators during the 2011 Cannes summit, but no consensus was reached beyond that of soft *indicative* indicators covering 11 headline indicators supplemented by 18 auxiliary variables. Chinese and German negotiators mobilised enough pushback to block the US initiative and then were able to increase their profiles via later G20 summits in Hangzhou (2016) and Hamburg (2017). In contrast to the EU's MIP, whose ownership rests with the European Commission, the G20's MAP is a member driven process that stands or falls with the commitment of participating countries. As countries are emerging with very different growth scenarios and policy challenges there is sign that the MAP has lost steam



(Faruquee and Srinivasan, 2014: 508, see also Callaghan 2013).

Whilst the MAP has floundered, the promotion of the MIP at the EU level strongly benefited from the MAP's prior institutional presence; it is therefore the case that the two scoping conditions of presence and promotion interact. First, the MAP put the issue of imbalances on the map of macro-economic policy coordination. By initiating this process, the G20 became an important forum to interpret both the origins of the global financial crisis and the correction of systemic risks. When the European Commission set forth to establish an imbalances procedure at the EU level, it was able to draw on the persuasion work surrounding the creation of the MAP. The MAP became a pilot for the EU to probe acceptance for the premise of symmetric adjustment from Germany, the largest surplus country of the Community. Second, EU negotiators achieved an agreement that the eurozone should be considered as a whole within the MAP when adjudicating on monetary and fiscal issues. This was an important concession for the German delegation. The eurozone as a whole is largely in balance. This then meant that the German account surplus, in contrast to China, would not be admonished on the G20 level. In protecting Germany from international reprimand, the European Commission was able to demand in turn support for a EU-level procedure (author interview 25.5.2011).

#### **P4: Plausibility**

Plausibility relates to 'the question of whether the arguments and claims one makes are judged to be believable by others' (Baker, 2012: 126). In this context, it relates to the

political traction in each institutional setting. In the case of both MAP and MIP, addressing imbalances has gained enough plausibility to be instituted as a policy initiative, but has not been sufficient to prevent a considerable degree of political antagonism swirling around such policies. MAP, given its weaker bureaucratic infrastructure, has been more decisively challenged in this regard than MIP, which addresses a more pressing problem for the eurozone. In the wake of the financial crisis global systemic imbalances became part of a larger policy shift. Yet, as the fog of the crisis lifted it became clear that G20 countries were affected differently both by imbalances and by the crisis itself. The role of imbalances in the US economy was for instance very different to that in Russia or Indonesia. This made a uniform reading difficult and policy initiatives less politically appealing at the national-level — however strong the case for collective action. As the G20's membership is composed of politically adversarial national governments without a central bureaucracy, actions taken under the MAP were always doomed to disappoint by some measure, either by antagonism or by ineffectiveness (due to the lack of enforcement mechanisms generating the same frailties as the IMF's oversight).

In its MAP related evaluations the IMF did present an effective reading of imbalances covering monetary, fiscal and financial policies (IMF, 2009; 2011; 2013). It furthermore placed emphasis on the role of both surplus and deficit countries (*ibid.*), which presents rather a novelty for multilateral policy cooperation. As early as 1941, Keynes bemoaned that adjustment under the old Gold Standard was 'compulsory for the debtor and voluntary for the creditor'. He argued that the country possessing the favourable balance should be in a position to initiate most of the effort necessary to eliminate it, while 'maintaining

enough discipline in the debtor countries to prevent them from exploiting the new ease allowed them' (quoted in Davidson, 2009: 129). The Bretton Woods system functioned on the assumption that adjustment to imbalances was, at least in theory, symmetrical between debtor and creditor countries with international reserves and IMF assistance to serve as buffers to international shocks (Bordo, 2005). Nonetheless, both Bretton Woods and the global economic arrangements that succeeded it have been characterised by an asymmetric burden of adjustment, with the notable exception of the United States (ibid.). The IMF's recent embrace of symmetric adjustment can therefore be seen as a relatively brave move. The Fund further gained credibility from the perceived modification of its policy advice on fiscal adjustment, which signalled its willingness to take on powerful governments pursuing contractionary policies. This attempt to strive for symmetry did not however translate into discussions at the G20 level and diminished the 'plausibility' of the MAP.

Within the MIP (and EMU more broadly) the issue of asymmetric adjustment is likewise controversial. For national governments, the plausibility of the new policy instrument is likely to be conditional on the extent to which they are individually penalized for running imbalanced macroeconomic policies; this is especially the case when those policies are considered 'virtuous' by the standards of other regulatory instruments such as the SGP (author interview 12.3.2011). The MIP replicates this asymmetry as the scoreboard for discretionary intervention by the Commission sets current account balance thresholds at 6 per cent for surplus countries and 4 per cent for deficit countries (see Moschella, 2014). For German officials furthermore the notion of imbalances has a qualitative component; as one (German) Commission official put it 'the EU is experiencing imbalances because [other countries] import garbage from China, not because we export high quality machinery

to the rest of the world' (author interview 25.5.2011).

The aim of the MIP scoreboard is to filter countries that warrant in-depth studies, in order to determine whether the potential imbalances identified in the early-warning system are benign or problematic. Out of the countries selected for review in 2012, only the Netherlands and Sweden ran current account surpluses. Yet this was not the reason for their selection (the cause being concerns over private sector/household debt). A similar pattern emerges in the following year. The country selection of the EIP so far clearly shows that imbalances are considered 'an asymmetrical problem' (Schwarzer, 2012: 38) which places the burden of correction on the deficit countries. Hodson (2013) characterises this as 'a politically convenient asymmetry given the reluctance of German authorities to countenance measures that could hinder the country's external competitiveness'. Note however that when MIP indicators were designed, Commission officials estimated that no country would breach the 6 per cent current account surplus in the foreseeable future (author interview 17.3.2015, 23.2.2017).

Consequently, the decision of the European Commission to launch an in-depth review against Germany in November 2013 came as a surprise to many, not least to German officials who thought the 6 per cent criterion would leave them with enough of a margin. The Commission's conclusions were predictably guarded: 'Germany is experiencing macroeconomic imbalances, which require monitoring and policy action' (COM(2014) 150 final, 5.3.2014). This language is a feature of the MIP application across countries; in the first 2012 round of the MIB review, no country (not even Cyprus where a banking crisis

erupted in the following year) was found to have excessive macroeconomic imbalances. The phrasing of country reports ('very serious' instead of 'excessive') suggests a cautious approach, so as not to alert financial markets and signal credit risks. In times of market crisis it became inappropriate 'to call a spade a spade' (author interview 16.3.2011). Along similar lines, the post-recession application of the SGP shows that Member States are hesitant to escalate the procedure (Hodson, 2013). The in-depth review of the German economy nevertheless makes for a very different reading than that of the previously identified surplus countries Sweden and the Netherlands. In its review the Commission (COM 2014) dissects Germany's surplus position, pointing to subdued domestic growth, inefficient allocation of domestic resources, a lack of investment, labour costs and 'the adverse effects on the functioning of the domestic economy and of the euro area'. The political sensitivity of the decision to place Germany under in-depth review is reflected in the fact that the final report is not only almost twice as long as the other 17 country reports, but lists more contributors than the in-depth reports for France, Spain, the Netherlands and Ireland combined.

We have already established how the creation of the MAP was brought about by the global economic fallout of 2008, in line with the 'crisis as opportunities for change' literature (Chwierothe and Danielsson, 2013). The crisis cauldron of the MIP differs in this respect, as the creation of the EU level procedure was propelled both by the events of 2008 and subsequently the eruption of the European Debt Crisis in 2010 (author interview 23.3.2011). Whereas the Eurozone Crisis gave urgency and plausibility to the creation of a new framework at the EU-level, the effect on the MAP was to draw important resources

away from the Process. As one EU official put it ‘we don’t need the G20 to deal with our own problems, we need the G20 so that the problems of other states don’t become our own problems’ (author interview 16.3.2011). By the same argument, the added value of the MAP for the EU diminished by 2010. EU policy leaders, be it the French, Spanish or the joint EU delegation, had previously been an important source of support for the US efforts to promote the MAP. With the future of the eurozone in peril, the MAP was demoted in the list of policy efforts addressed at the G20.

Indeed imbalances are in general a problem for the EU (and eurozone in particular) to a far greater degree than the G20, due to higher levels of policy interdependence. Country-specific booms or busts mean that cyclical conditions move significantly out of line with the common monetary policy, leading to misalignment. The monetary policy of the ECB exacerbates these booms and busts, with single interest rates being ‘too high’ for countries in recession and ‘too low’ for the booming countries. This means that collective plausibility for EU’s MIP is (much) higher than for the G20: quite simply, it addresses an evident problem. Consequently, there ‘was genuine appetite to have a more holistic view of potential weaknesses across the EU’ (author interview 25.3.2015). As Helleiner (2014: 79) observes, ‘During the first decade of the euro’s existence, Germany accumulated large surpluses while payments deficits emerged in a number of poorer Eurozone countries in response to differing rates of productivity growth, asymmetric shocks, and other diverging economic trends.’ This trend has been increasingly recognized as an existential risk for the eurozone.

Regardless of how individual countries respond to being admonished by the MIP, it is incontrovertible that wider critical opinion has responded very positively to any attempt

(however limited) to address the broader governance problems of the eurozone. At the EU level this represents a substantial shift and broadening of the debate on macroeconomic policy coordination; ‘politically the MIP has established a dialogue where we look at both sides of the coin’ (author interview 17.3.2015). Perhaps less audible outside of the country, the discussion about imbalances and Germany’s contributing role in destabilising the Eurozone is now an important part of the political debate within Germany (e.g. Bundestag 13.11.2014; Bundestag 9.9.2012; Bundestag 29.6.2013; Bundestag 26.10.2011) and public (*FAZ* 5.3.2014; *die Zeit* 8.11.2012; *Süddeutsche* 13.11.2013; *Handelsblatt* 8.12.2013; *der Spiegel* 12.3.2014).

Although both procedures therefore started out as strikingly similar policy initiatives arriving at the ‘consolidation stage’ (Culpepper, 2008), their remit and appeal differs starkly. Whereas the MAP turned into the challenge of managing the co-existence of *multiple* national currencies, the MIP’s mission is to manage the challenges associated with a *single* currency, with imbalances presenting in different ways due to the presence of a single monetary policy. Although progress has not so far been as decisive as some commentators have demanded (falling far short of political union), the willingness of the eurozone to experiment with solutions such as MIP means that the regulatory framework is well-embedded within a broader landscape of policy. Whereas the notion of imbalances has infused EU economic governance post crisis, the G20’s MAP in contrast remains an isolated piecemeal exercise in the landscape of multilateral policy cooperation.

## Conclusion

In some respects, the MIP and MAP share more similarities than differences. Both are crisis-led initiatives to increase supranational (and inter-state) oversight of member states' macroeconomic policies in order to decrease the potential for imbalances to build up between them. Both owe much to ideational precedents, set by the IMF's and European Commission's pre-crisis economic measures in the form of macroeconomic surveillance and the BEPGs respectively (neither of which were realistically sanctionable, but which provided members with prior experience of macroeconomic co-ordination). And both exist in a delicate state of balance between the interests of individual member states and the stability of the whole (or perhaps, the ability of central authorities to enforce compliance with stabilisation initiatives). Nonetheless, these superficial similarities also hide some important differences, as the use of Baker's four 'scoping conditions' make clear. The two therefore shed light on the way in which institutional context itself shapes – through presence, professional positioning, promotion and persuasion and plausibility – the types of policies that emerge. In this context, we find that plausibility appears to be the most critical condition in separating the fortunes of the two initiatives, with starkly different outcomes across the two policies. These outcomes are summarized in Table 2 below.

The backdrop of crisis against which both procedures rose to the fore, makes it very clear that the issue of imbalances has gained traction as an explicit reaction to the failures of existing regulation. In this respect, the sequence of the policy shift gains increased salience. The G20's MAP owes its lineage to the IMF's prior surveillance (and indeed its



bureaucratic capacity to the IMF directly), but the eagerness with which national leaders initially seized upon the initiative as a flagship policy for the new G20 suggests not only the contemporary utility of this policy frame, but also the perceived failure of the IMF's existing work to deliver surveillance with the necessary bite (cf. Moschella, 2014). Likewise, the EU's MIP shares many of the mechanisms of the BEPGs, together with some of the same aims. Yet it took two crises for member states to once again consider accepting a procedure in which the European Commission was granted the right of adjudication over the collective imbalances created by individual member states' policies. In both cases, the initiatives seem to be partial revisions of these prior policies, with a much more targeted remit and situated more firmly in an institutional context in order to beef up their (hard and soft) sanctioning capacity. The perceived necessity of both of these actions can be attributed to crises: in the case of the MAP the global financial crisis of 2008, in the case of the MIP both the 2008 crisis and the European Debt Crisis.

The MAP's sidelining can be traced in part to the political mistranslation between the IMF and the G20 level. Whereas the IMF evaluation presents a comprehensive analysis of factors associated with systemic imbalances, the G20 discourse surrounding its implementation singled out the issue of exchange rates in the context of the Chinese surplus position. Although the EU's imbalances procedure does not set out to treat surplus and deficit countries as equals, we argue that the first three rounds of its implementation give reason to be optimistic (for a dissenting view see Moschella, 2014). Analysing the new, comprehensive framework for addressing macroeconomic imbalances, we find evidence for a shift away from the one-sided treatment of deficit countries associated *inter alia* with

the Stability and Growth Pact. In the course of making this argument we adopted Baker's scoping framework (2012) to illustrate the purchase of the policies and appraise the conditions of the current and future successes of both policies. What the experiences of the MAP and MIP clearly show is that, while ideas matter, so do institutional settings, political actors within them, and the sequencing of events.

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**Table 1: MAP and MIP indicators compared**

Policy	MAP areas	MIP indicators
Indicators	Domestic variables	<ul style="list-style-type: none"> <li>• Private sector debt as percentage of GDP with a threshold of 160 per cent</li> <li>• Private sector credit flow as percentage of GDP with a threshold of 15 per cent</li> <li>• Year-on-year changes in house prices relative to a Eurostat consumption deflator, with a threshold of 6 per cent</li> </ul>
	Monetary and fiscal policy	<ul style="list-style-type: none"> <li>• 3-year percentage change of real effective exchange rates based on Harmonised Index of Consumer Prices (HICP) and Consumer Price Index (CPI) deflators, relative to 35 other industrial countries, with thresholds of <math>\pm 5</math> per cent for euro-area countries and <math>\pm 11</math> per cent for non-eurozone countries;</li> <li>• Percentage change over three years of the real effective exchange rate (REER), relative to 41 other industrial countries (ICs), with thresholds of <math>\pm 5</math> to <math>\pm 11</math> per cent</li> </ul>
	Fiscal policy	<ul style="list-style-type: none"> <li>• General government sector debt as percentage of GDP with a threshold of 60 per cent</li> </ul>
	Labour markets	<ul style="list-style-type: none"> <li>• 3-year percentage change in nominal unit labour cost, thresholds of <math>+9</math> per cent for eurozone countries and <math>+12</math> per cent for non-eurozone countries</li> <li>• 3-year backward moving average of unemployment rate, with threshold of 10 per cent</li> </ul>
	External development	<ul style="list-style-type: none"> <li>• Net international investment position as percentage of GDP, with a threshold of <math>-35</math> per cent of GDP</li> </ul>
	External variables	<ul style="list-style-type: none"> <li>• 3-year backward moving average of the current account balance as percentage of GDP, threshold of <math>+6</math> and <math>-4</math> per cent of GDP</li> <li>• 5-year percentage change of export market shares measured in values, with a threshold of <math>-6</math> per cent</li> </ul>

**Table 2: MAP and MIP compared according to the ‘4 Ps’**

	MAP	MIP
P1: Presence	High: the IMF had been conducting similar exercises under its surveillance programme, and implements the G20’s own surveillance.	Medium: the BEPGs provided an intellectual toolkit for the MIP, but had been under-used, and Commission officials therefore regard MIP as a genuinely novel initiative.
P2: Professional positioning	Medium: Sarkozy and Obama initially built on the IMF’s heightened status to push the imbalances agenda, but rapidly shifted their attention after it failed to serve French and US interests successfully.	High: both Sarkozy and the Commission were supportive of the initiative, and were able to build on the existing Commission infrastructure in order to build a policy with high salience.
P3: Promotion and persuasion	Low: focus on exchange rate imbalances between the US and China was to prove politically antagonistic and practically toothless.	Medium: the Commission was able to buy support from member states by using the experiences of the MAP as both a pilot and a political weapon.
P4: Plausibility	Low: weak bureaucratic infrastructure ensured that even the technical credibility of the IMF was not enough to prevent the political hijacking of MAP.	High: the Eurozone had a clearly pressing need for imbalances regulation and Commission architecture lent robustness in implementation. Furthermore, its creation drew political resources away from the MAP.